

**U.S. Department of Health and Human Services  
Health Resources and Services Administration  
Bureau of Health Professions  
Division of Student Assistance**

## **FEDERAL HEALTH EDUCATION ASSISTANCE LOAN (HEAL) PROGRAM**

(Authorized by Sections 701-720 of the Public Health Service Act)

The HEAL program provided federal insurance for educational loans for graduate students loans made by participating lenders to eligible graduate students in schools of medicine, osteopathy, dentistry, veterinary medicine, optometry, podiatry, public health, pharmacy, chiropractic, or in programs in health administration, and clinical psychology. The basic purpose of the program was to assure the availability of funds for loans to eligible student who needed to borrow money to pay for their educational costs. From fiscal year 1978 through 1998 the HEAL Program insured loans to over 156,000 borrowers. **New HEAL loans to student borrowers were discontinued as of September 30, 1998.** However, the loan refinancing initiative implemented in 1994 continues to provide HEAL borrowers with more favorable terms and interest rates and is considered to be a highly effective default prevention initiative.

### **REFINANCE LOANS**

Borrowers with one or more HEAL loans may refinance their loan(s) to take advantage of lower interest rates and better terms and/or to consolidate several HEAL loans into a single new loan. There is no prepayment penalty to pay off the original HEAL loans and there are no origination fees. These loans offer, in most cases, lower interest rates, no interest compounding until repayment, one monthly payment, various repayment options, and one loan serviced by a single servicer. Deferments and forbearance are also offered. However, the borrower should be aware that a refinanced loan may be higher in total cost if the repayment period is extended beyond the life of the original HEAL loans. A list of participating refinancing lenders is located at our web site at [www.hrsa.gov/refinance](http://www.hrsa.gov/refinance).

### **REFINANCING LENDERS**

Financial or credit institutions (including banks, savings and loan associations, credit unions, or insurance companies), State agencies, pension funds, eligible HEAL schools which were lenders prior to 09/15/1992, and non-profit private entities designated by a State are eligible to participate as a HEAL refinancing lender and must submit an application to the Secretary annually.

### **LOAN LIMITATIONS**

Original HEAL loans had aggregate loan limits of \$80,000 for students of allopathic medicine, osteopathic medicine, dentistry, veterinary medicine, optometry, and podiatric medicine and \$50,000 for students of public health, pharmacy, chiropractic, health administration, and clinical psychology. HEAL loans may be refinanced only after a borrower has graduated or withdrawn from school. There is no cost for refinancing a HEAL loan(s). The new refinanced loan will pay off (principal and interest) all eligible underlying HEAL loans. There is no loan limit for a refinanced HEAL loan. A borrower is only entitled to one grace period. If it was used on the original HEAL loans, then the new refinanced loan will not include a grace period. Any defaulted HEAL loan may not be refinanced. Any collection fees or court costs on delinquent loans must be paid in full prior to a refinancing lender issuing a refinanced loan. These costs may not become a part of the new loan.

### **INTEREST**

Legislation states that the maximum interest which may be charged to the borrower on the unpaid balance of a HEAL loan may not exceed the average bond-equivalent rate during the prior calendar quarter for 91-day Treasury bills sold at auction, plus three percent, rounded to the next higher 1/8 of one percent. Payment of principal and interest may be deferred during specific eligible periods of deferment. The HEAL program does not provide a subsidy payment for interest. Accrued interest may be compounded not more frequently than annually by adding it to the principal amount of the loan. Refinancing lenders generally offer significantly lower interest rates and more favorable terms. Some original HEAL loans had maximum interest rates of the average bond-equivalent rate during the prior calendar quarter for 91-day Treasury bills sold at auction, plus 3.5 percent, rounded to the next higher 1/8 of one percent and could be compounded semiannually.

### **INSURANCE PREMIUM**

The insurance premium fee of 6 or 8 percent (depending on the default rate of the school the borrower was attending) to guarantee the original HEAL loan is not charged again on a refinanced loan. It was charged to the borrower when the loan was initially disbursed to cover insurance for the lender if the borrower defaults, dies, becomes totally and permanently disabled, or files bankruptcy. Legislation enacted 10/13/1992 required schools with default rates greater than 5 percent to pay a risk-based insurance premium on each loan disbursed during that fiscal year. These funds were placed in the insurance fund, the same as the insurance premium fee..

## REPAYMENT

Repayment begins the first day of the 10th month after the month the borrower ceases to be a full-time student at a HEAL school. The 9-month period before the repayment period begins is called the "grace period." However, if the borrower becomes an intern or resident in an accredited program within 9 full months after leaving school, repayment will begin the first day of the 10th month after the borrower ceases to be an intern or a resident. The "grace period" and repayment period can also be postponed if a borrower enters into a fellowship training program or educational activity associated with the borrower's degree program within 12 months of the completion of the residency. A borrower has from 10 to 25 years to repay the loan after the repayment period starts even when the borrower participates in an authorized deferment program. There is no penalty for prepayment. Overdue accounts will be aggressively pursued and referred to collection agencies and credit bureaus or for legal action when borrowers fail to meet the terms of their loans. If a borrower was in repayment on the original HEAL loans, and then refinances the loans into a new refinanced loan, the borrower is entitled to another 25 year repayment period.

Repayment schedule provisions may vary and affect the total amount to be repaid.

- , Lenders must offer a graduated repayment option to borrowers which requires smaller payments early in the repayment period.
- , Lenders must offer an income contingent loan repayment schedule that, during the first 5 years of repayment is based on a borrower's income.

## FORBEARANCE

A forbearance is an extension of time for making loan payments or the acceptance of smaller payments than were previously scheduled to prevent a borrower from defaulting. Lenders have the authority to grant forbearance in six-month increments up to a maximum of three years. Periods of forbearance may be extended beyond three years with the approval of the Secretary. Any such period would be in addition to the 3-year period which lenders/holders can grant. Any period of forbearance granted to a HEAL borrower shall not be included in the 25 year loan repayment period for loans made on or after 10/13/1992. Lenders must notify each borrower of the right to request forbearance; however, if the lender determines that the default of the borrower is inevitable and that forbearance would be ineffective in preventing default, the lender is not required to grant forbearance.

## DEFERMENT

Repayment of principal and interest can be deferred, but interest continues to accrue during periods of:

- , Full-time study at a HEAL school or at an institution of higher education participating in the Federal Family Education Loan Program;
  - , Up to three years for full time active duty in the Armed Forces;
  - , Up to three years each for service in the Peace Corps, VISTA or the National Health Service Corps;
  - , Up to two years for certain fellowship and educational training programs\*;
  - , Up to four years for internship and residency training\*;
  - , Up to one year for graduates of schools of chiropractic;
  - , Up to three years for completion of an internship or residency training program in osteopathic general practice, family medicine, general internal medicine, preventive medicine, or general pediatrics and is practicing primary care; and/or
  - , Up to three years for providing health care services (beginning 02/01/1999) to Indians through any health program or facility funded in whole or part by the Indian Health Service for the benefit of Indians.
- \* may postpone repayment period

## DUE DILIGENCE

Lenders must:

- , Contact the borrower every 6 months to notify him/her of the amount of the debt;
- , Contact the borrower in writing 30-60 days before the commencement of the repayment period to establish the repayment terms;
- , Contact both the borrower and any endorser at least 4 times at regular intervals during the first 120 days of any delinquency period.
- , Notify national consumer credit reporting agencies regarding accounts overdue by more than 60 days; and
- , Request preclaim assistance from the HEAL Program when the borrower is 90 days delinquent. (HEAL preclaim assistance consists of three progressively stronger letters urging the borrower to contact his/her lender before the lender initiates litigation against the borrower.)

## **LITIGATION**

Lenders and holders are required to litigate defaulted loans and obtain a judgment against the borrower in most cases. Litigation is not required when the loan involved was made in an amount of less than \$5,000 prior to 11/04/1988 or the loan was made in an amount of less than \$2,500 on or after 11/04/1988 or if the defaulted claim is less than \$300. Schools may assist in the collection of delinquent HEAL loans. HEAL loans are exempted from any State or Federal Statute of Limitations provisions which limit the period within which a loan may be collected.

## **DEFAULT REDUCTION INITIATIVES**

Congressional concerns that default rates in the HEAL program would exceed the capacity of the student loan insurance funds to cover the costs of default resulted in the establishment of the Office of HEAL Default Reduction (OHDR), as mandated by the Health Professions Education Extension Amendments of 1992. While the OHDR provides technical assistance, conducts studies and reports to Congress, institutions may be most aware of its role in default reduction. One of the OHDR's most publicized responsibilities is to compile and publish on the Internet at [www.defaulteddocs.dhhs.gov](http://www.defaulteddocs.dhhs.gov) a list of HEAL borrowers who are in default

## **POST DEFAULT ACTIVITIES**

HEAL loans are exempt from any statute of limitations. Defaulted borrowers are subject to the following:

- , Report default claim to consumer credit reporting agencies after claim is paid by DHHS;
- , Account referred to a collection agency;
- , Referral to the Inspector General, DHHS and the Department of Justice (DOJ);
- , DOJ registers the state or local judgment in Federal court for enforced collection. DOJ enforcement procedures include garnishment of wages, attachment of property, and other appropriate methods;
- , Exclusion from Medicare and Medicaid programs;
- , IRS offset (withholding of any tax refund up to the full amount of the unpaid indebtedness);
- , Federal salary offset to employees of the federal government until HEAL debt is paid in full;
- , Withholding of school services such as academic transcripts and alumni services.
- , Publish names of defaulters (who have not entered into a settlement agreement) on web site at [www.defaulteddocs.dhhs.gov](http://www.defaulteddocs.dhhs.gov)

### **For additional information about HEAL use:**

**HEAL Web Site:** [www.bhpr.hrsa.gov/dsa](http://www.bhpr.hrsa.gov/dsa)

**E-mail Address:** [refinance@hrsa.gov](mailto:refinance@hrsa.gov)

**Defaulted Docs Web Site:** [www.defaulteddocs.dhhs.gov](http://www.defaulteddocs.dhhs.gov)

**HEAL Program Telephone Number:** (301) 443-1540

**HEAL Toll-Free Telephone Number:** 1 (877) 411-HEAL